



February 27, 2002

The Honorable John F. Kerry
Chairman
Senate Committee on Small Business and Entrepreneurship
United States Senate
428A Russell Senate Office Building
Washington, D.C. 20515

Dear Chairman Kerry,

On behalf of National Small Business United, the nation's oldest small business advocacy association, I would like to thank you for holding today's hearing on the Small Business Administration's fiscal 2003 budget. Our association has long been a supporter of the SBA, its loan programs, and, of course, its Office of Advocacy.

Overall, we believe that the Administration is moving in the right direction on several key SBA budget items, which is encouraging given the pressure on domestic discretionary spending. Many important programs have been recommended for funding at current levels or higher, and many have been proposed at significantly higher levels than have been proposed in the past. Specifically:

- The budget also would provide \$26.6 million for SBA Microloans, \$1 million more than in FY 2002. The budget proposes \$795 million in new funding for disaster loans.
- The budget includes funding the agency's Small Business Development Center program at \$88 million.
- The budget includes \$1.5 million to fund the White House Conference on Small Business.
- The budget proposes \$500,000 for the Office of the National Ombudsman.
- The budget proposes \$1.1 million for the Office of Advocacy, the same as in FY 2002.

Many of these items represent key legislative and regulatory priorities for our association for the 107th Congress, and we are pleased that the SBA seems to be moving in the right direction in terms of allocating funds to those programs that need funding the most.

There is one major problem, however, with the President's proposed budget and it has to do with the Administration's plan to cut funding to the 7(a) program by more than 50 percent.

It is critical to note that The Small Business Administration's 7(a) Loan Guaranty Program is one of the agency's primary lending programs. It provides loans to small businesses that are unable to find other avenues for capital. The program operates through private, third party lenders that provide loans, which are, in turn, guaranteed by SBA. Since the SBA is a "lender of last resort," it is very likely that cuts to this program will translate into a number of small firms either floundering, or not even getting off the ground at all.

Each year, Congress is responsible for appropriating funds for this program. The amount of money appropriated then is used to fund the agency's loan activity. SBA loan programs provide approximately 40% of all long-term loans. The SBA 7(a) appropriations are leveraged almost 99 to 1 by the private sector, making this one of the governments' best economic development instruments. This program is well known for its success stories, enjoys a low default rate, and always returns funds to the Treasury.

However, each year, the Office of Management and Budget (OMB) calculates a "subsidy rate," based upon a number of factors. Theoretically, the subsidy rate equals the amount that the program costs the federal government. Unfortunately, OMB has consistently calculated a subsidy rate that is much higher than the program has actually cost. Therefore, federal appropriations and program fees have been unnecessarily high. This situation has gone on for a number of years now, as OMB has consistently refused to use the same criteria the lending industry has to calculate the subsidy rate. The result is basically a tax on small firms, as monies from the 7(a) program are always, as previously mentioned returned to the government treasury.

While I am sure that you will hear testimony from those more expert in the calculation of subsidy rates today, our case is simple: the more OMB refuses to come up with a reasonable and accurate calculation, the fewer small firms have a chance in today's economy.

I appreciate the opportunity to make our organization's views on this matter known, and I am always available to answer any questions or concerns you or any member of this fine committee may have.

Sincerely,

A handwritten signature in black ink, appearing to read "Todd McCracken", followed by a long horizontal line.

Todd McCracken
President